Report

of the

Examination of

Catholic Family Life Insurance

Shorewood, Wisconsin

As of December 31, 2001

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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July 3, 2002

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Commissioner of Insurance
State of Wisconsin
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Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

CATHOLIC FAMILY LIFE INSURANCE
Shorewood, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the society was conducted in 1997 as of December 31, 1996. The current examination covered the intervening period ending December 31, 2001, and included a review of such 2002 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the society's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Growth of Society
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the society's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the society to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the society's operations is contained in the examination work papers.

The society is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance. They reviewed the adequacy of aggregate life and accident and health reserves, refunds to members, cash flow testing, deferred and uncollected premiums for life insurance, due and uncollected premiums for health insurance, and in force testing. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

II. HISTORY AND PLAN OF OPERATION

The society was organized in 1869, as the "Familien Schutzgesellschaft von Wisconsin" under the Wisconsin laws applicable to fraternal benefit societies. The name was changed a number of times over the years and in 1951 the present name was adopted. Membership is open to practicing Catholics of good character and health.

Union Saint-Jean-Baptiste (USJB), a Rhode Island-domiciled fraternal society, merged into Catholic Family effective October 1, 1991. The agreement of merger provided that the society would maintain a divisional office in Woonsocket, Rhode Island, to provide service and fraternal outreach to the New England members. Northern Fraternal Life Insurance, a Wisconsin-domiciled fraternal benefit society, merged into Catholic Family effective December 31, 1993.

The society writes direct premium in the following states:

Wisconsin	$10,642,036	64%
Massachusetts	1,518,209	9
California	587,766	4
Maine	541,685	3
Connecticut	469,112	3
All others	2,857,757	17
	$16,616,565	100%

As of the examination date, the society was licensed in the following 21 states:

Arizona	Massachusetts	North Dakota
California	Michigan	Pennsylvania
Connecticut	Minnesota	Rhode Island
Illinois	Missouri	South Dakota
Indiana	Montana	Vermont
Maine	Nebraska	Virginia
Maryland	New Hampshire	Wisconsin

The major products marketed by the society include both permanent and term life insurance, as well as annuities and a small amount of accident and health business. The permanent life business includes ordinary and universal life products, as well as guaranteed issue products. Term products include 10- and 20-year level term, annual renewable, and decreasing term to 75 policies, as well as a juvenile product. The society writes single and flexible premium annuities, as well as an immediate annuity and a more short-term, liquid product. Accident and health business includes disability and long-term care products, but is not a large portion of the company's business.

The major products are marketed through 80 fieldworkers. This number includes full- and part-time agents, as well as general agents. The society uses standard contract forms and commission schedules for its agents and general agents.

The society also undertakes a variety of charitable, educational, religious and social programs. The society publishes The Family Friend, a quarterly magazine which highlights fraternal and insurance programs and recognizes members' fraternal service. The branches and councils held 2,825 activities in 2001, and received subsidies of $71,719 from CFLI. Members volunteered 132,314 hours of time for the year for a variety of causes. Charitable donations of $422,919 were raised by the members and given to a variety of causes including Catholic schools and churches, needy individuals, and community organizations; CFLI matched $124,421 of the funds raised, and also donated $60,199 directly to various causes.

The society provides an orphan benefit consisting of a monthly stipend and college scholarship for children whose parents are deceased. A newborn benefit of $2,000 is paid if a newborn child dies within 60 days of birth, or if the mother dies within 30 days of childbirth. Parents have the opportunity to purchase up to $10,000 of life insurance for their newborn up to the age of 60 days, at standard rate, regardless of the child's health.

The society provides a tuition assistance program. In 2001, the society awarded 109 Catholic high school grants totaling $38,150; and 42 Catholic elementary grants totaling $8,400. The SJB Foundation awarded 210 college grants, totaling $83,820. The society also organizes family gatherings for members, such as a camping trip and partially subsidized outings to Noah's Ark waterpark and the Milwaukee Zoo. In addition, the society provides subsidies to summer camps, sponsors attendance at Catholic retreats, sponsors a children's club, and provides first communion and baptism benefits.

The fraternal identity of USJB was not extinguished in its merger with Catholic Family. USJB is represented as the New England Division of Catholic Family Life Insurance. According to the agreement of merger, it is one of the intentions of the agreement to preserve, enhance, and expand USJB's commitment to the Franco-American, Catholic heritage through the continuation and expansion of its many cultural and ethnic member programs. Benefits unique to the society's New England Division include a French language program and a Franco-American Heritage Day. The division also publishes a bilingual magazine (L'Union) three times per year, and maintains the Major Mallet Library, a substantial collection of books on Franco-American history, culture and genealogy.

The following chart is a summary of the net insurance premiums written by the society in 2001. The growth of the society is discussed in the Financial Data section of this report.

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Reinsurance Ceded**	**Net Premium**
Traditional life	$ 4,851,038	$0	$339,783	$ 4,511,255
Universal life	4,383,170	0	306,765	4,076,405
Annuities	7,869,359	0	0	7,869,359
Accident and health	213,531	0	18,368	195,163
Total All Lines	$17,317,098	$0	$664,916	$16,652,182

III. MANAGEMENT AND CONTROL

Membership

The supreme governing body of the society is the general convention which meets every four years. The general convention is made up of delegates elected by the various local units of the society's lodge system. It last met in regular session in October 2001.

The society has three classes of members: benefit, associate, and children. A benefit member is a practicing Catholic 18 years of age or more to whom a policy of insurance has been issued, or who receives a settlement agreement benefit by virtue of such insurance. An associate member is a practicing Catholic 18 years of age or more who does not have a policy of insurance with the society. Both classes are entitled to participate in activities and hold office in their local branch. Benefit members may also vote for and be elected as delegates to the general convention. A children member is a practicing Catholic younger than 18 years of age to whom a policy of insurance has been issued. Children members become benefit members upon attainment of age 18.

Growth of Membership

Year	Members
1997	**66,173**
1998	**64,873**
1999	**62,886**
2000	**60,892**
2001	**59,086**

Board of Directors

The board of directors consists of ten members. Directors are elected at each general convention to serve a four-year term, commencing January 1 of the year immediately following the general convention. The Board may appoint directors to fill vacant seats on the Board until the next general convention is held. No director may continue to serve after the end of the calendar year in which he attains seventy years of age. Officers are elected at the board's annual meeting. The board members currently receive $10,000 annually plus $500 per meeting attended for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Marguerite P. Boucher Sanford, Maine	Retired Banker	1/1/2003
Thomas F. Cavanaugh Wisconsin Rapids, Wisconsin	Certified Public Accountant	1/1/2004
Jerome D. Chucka Milwaukee, Wisconsin	Real Estate Appraiser	1/1/2004
William L. Eimers Fenton, Missouri	Retired President, CFLI	1/1/2006
Robert C. Gallagher Green Bay, Wisconsin	President/CEO, Associated Bank	1/1/2006
Mildred M. Jandrin Kewaunee, Wisconsin	Accountant	1/1/2006
Daniel T. Lloyd Germantown, Wisconsin	President/CEO, CFLI	1/1/2006
Patrick J. Murphy, PhD Milwaukee, Wisconsin	Management Consultant, Chairman, CFLI	1/1/2006
Thomas W. O'Brien Shorewood, Wisconsin	Attorney	1/1/2006
Paul B. Pinsonnault North Attleboro, Massachusetts	Controller	1/1/2006

Officers of the Society

The officers serving at the time of this examination are as follows:

Name	Office	2001 Compensation
Daniel T. Lloyd	President and CEO	$161,648
Mary C. d'Arras	Senior Vice President and Secretary	129,575
Derek J. Metcalf	Vice President and Treasurer	76,563
Bruce A.Burg	Vice President, Investments	78,033
William C. Dulde	Vice President, Director of Agencies	101,462
Joseph E. Gadbois	Vice President, Fraternal Services	100,776
Charles E. Boisvert	Assistant VP and Treasurer	72,755
Louise Champigny	Assistant VP, Fraternal Activities; Asst. Secretary	64,507

Committees of the Board

The society's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
Patrick J. Murphy, PhD, Chair
Thomas F. Cavanaugh
Robert C. Gallagher
Jerome D. Chucka
Thomas W. O'Brien
Daniel T. Lloyd

Audit Committee
Thomas F. Cavanaugh, Chair
Marguerite P. Boucher
Mildred M. Jandrin
Paul B. Pinsonnault

Board Finance Committee
Thomas W. O'Brien, Chair
Jerome D. Chucka
Paul B. Pinsonnault
Thomas F. Cavanaugh

Union Saint-Jean-Baptiste Advisory Board

The primary purpose of the Union Saint-Jean-Baptiste Advisory Board is to continue the premerger USJB tradition of promoting the Franco-American culture and heritage. The advisory board's responsibilities include the review of the New England division's operating budget, participation in district activities, approval of regional donations, and promotion of new and improved fraternal programs. The advisory board reviews quarterly fraternal activity reports, promotes membership, sees that the councils hold monthly meetings, and provides the councils with a ritual of initiation of members and the installation of officers.

Members of the advisory board are elected at the quadrennial district conventions. The 11 members of the advisory board are:

USJB Advisory Board:

Theodore A. Bartlett
Joseph Caron
Bonita Cairns
Jacqueline Brosseau-Cyr
Susan Griffiths
Norman Laverriere
Gaspard D. LeBlanc
Lynette Ouellette
Gloria Pilotte
Pearl Plante
Marialyse Rivers

IV. REINSURANCE

The society's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Ceding Contracts

1. Type: Automatic coinsurance with facultative option

Reinsurer: Business Men's Assurance Company of America

Scope: Life insurance issued by the society

Retention:

Risk Class	Limit
Standard	$150,000
Substandard 1-7	$150,000
Substandard 8	$ 75,000

Coverage:

Risk Class	Limit
Standard	$600,000 excess of $150,000
Substandard 1-7	$600,000, excess of $150,000
Substandard 8	$300,000, excess of $75,000

Premium:

Flat Extra Premiums
Permanent Extras (for more than 5 years)
Reinsurance premium in the first year is zero. In renewal years, it is 80% of the flat extra premium charged the insured by the ceding company (society), multiplied by the initial amount ceded.

Temporary Extra (for 5 years or less)
Reinsurance premium is 80% of the flat extra premium charged the insured by the ceding company in first and renewal years, multiplied by the initial amount ceded.

Substandard Premiums
Substandard premiums are standard premiums increased 25% per Table.

Substandard Nonsmoker Premiums
Substandard nonsmoker will be charged on the nonsmoker rate basis.

Commissions: **Adjustable Life – 85 & Term Riders**

Year	Smoker Allowance (% of cost insurance premium)	Nonsmoker Allowance (% of cost of premium)
1	100%	100%
2+	48%	33%

Effective date: November 1, 1995

Termination: The Agreement may be terminated at any time by either party giving at least 90 days written notice of termination.

2. Type: Automatic Coinsurance with facultative option

Reinsurer: Business Men's Assurance Company of America

Scope: Accidental Death & Dismemberment Benefits issued by the society

Retention:

Benefit Period	Retention
2 year	$3,000/month
5 year	$ 500/ month
To age 65	$ 350/ month

Coverage:

Benefit Period	Maximum Reinsured
2 year	$2,000
5 year	$4,500
To age 65	$4,650

Premium: **Standard and Substandard**
The ceding company shall pay BMA premiums corresponding to the gross premiums charged the insureds on portions coinsured less commissions and expense allowances. The ceding company retains all policy fees (if any).

Commissions: **Disability Income & SDB Rider**

Policy Year	Allowances (% of premium)
All Benefit Periods	
1	100%
2+	20%

Effective date: April 1, 1995

Termination: The agreement may be terminated at any time by either party giving 90 days notice of termination in writing.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the society as reported in the December 31, 2001, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the society, NAIC Insurance Regulatory Information System (IRIS) ratio results during the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Members' Surplus per Examination."

Catholic Family Life Insurance
Assets
As of December 31, 2001

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$117,743,534		$117,743,534
Stocks:			
Preferred stocks	840,179		840,179
Common stocks	5,160,462		5,160,462
Mortgage loans on real estate:			
First liens	81,329,536		81,329,536
Real estate:			
Held for the production of income	2,498,056		2,498,056
Certificate loans and liens	6,501,486		6,501,486
Cash	1,999,282		1,999,282
Other invested assets	48,189		48,189
Reinsurance ceded:			
Amounts recoverable from reinsurers	25,100		25,100
Electronic data processing equipment and software	178,679	144,193	34,486
Life premiums and annuity considerations deferred and uncollected	910,105		910,105
Accident and health premiums due and unpaid	5,831	3,366	2,465
Investment income due and accrued	2,286,060		2,286,060
Amounts due from fieldworkers	171,283	171,283	0
Other assets nonadmitted:			
Furniture and equipment	76,912	76,912	0
Leasehold improvements	54,348	54,348	0
Write-ins for other than invested assets:			
Prepaid Expenses	14,271	14,271	0
Total Assets	$219,843,313	$464,373	$219,378,940

Catholic Family Life Insurance
Liabilities, Surplus, and Other Funds
As of December 31, 2001

Aggregate reserve for life certificates and contracts	$195,460,392
Aggregate reserve for accident and health certificates	647,975
Liability for deposit-type contracts	4,704,980
Certificate and contract claims:	
Life	276,581
Accident and health	5,868
Provision for refunds payable in following calendar year:	
Apportioned for payment to December 31, 2002	911,317
Premiums and annuity considerations received in advance	72,373
Certificate and contract liabilities not included elsewhere:	
Interest maintenance reserve	81,785
Commissions to fieldworkers due or accrued	174
General expenses due or accrued	228,256
Taxes, licenses, and fees due or accrued	3,167
Amounts withheld or retained by society as agent or trustee	87,644
Remittances and items not allocated	711,651
Liability for benefits for employees and fieldworkers if not included above	461,382
Miscellaneous liabilities:	
Asset valuation reserve	1,205,618
Total Liabilities	204,859,163
Unassigned funds (surplus)	14,519,777
Total Surplus	14,519,777
Total Liabilities, Surplus, and Other Funds	$219,378,940

Catholic Family Life Insurance
Summary of Operations
For the Year 2001

Premiums and annuity considerations for life and accident and health policies and contracts	$16,652,182
Considerations for supplementary contracts with life contingencies	622,289
Net investment income	14,246,505
Amortization of interest maintenance reserve	72,473
Commissions and expense allowances on reinsurance ceded	150,164
Total income items	31,743,613
Death benefits	2,731,283
Matured endowments	142,021
Annuity and old age benefits	3,639,089
Disability, accident and health benefits including premiums waived	164,906
Surrender benefits and withdrawals for life contracts	7,140,101
Interest and adjustments on certificate or deposit-type contract funds	197,929
Payments on supplementary contracts with life contingencies	439,750
Increase in aggregate reserve for life and accident and health certificates and contracts	8,248,932
Subtotal	22,704,011
Commissions on premiums, annuity considerations, and deposit-type contract funds	812,832
General insurance expenses and fraternal expenses	6,511,694
Insurance taxes, licenses, and fees	279,160
Increase in loading on deferred and uncollected premiums	85,204
Write-in for deductions:	
Term Conversion credit	7,490
Transfer of annuity certain reserves to deposit-type contracts	38,222
Total deductions	30,438,613
Net gain from operations before refunds to members	1,305,000
Refunds to members	966,972
Net gain from operations after refunds to members and before realized capital gains or (losses)	338,028
Net realized capital gains or losses	(1,216,442)
Net Income	$(878,414)

Catholic Family Life Insurance
Cash Flow
As of December 31, 2001

Premiums and annuity considerations for life and accident and health policies and contracts	$16,591,302		
Considerations for supplementary contracts with life contingencies	622,289		
Net investment income	14,418,928		
Commissions and expense allowances on reinsurance ceded	150,164		
Total		$31,782,683	
Death benefits	2,728,418		
Matured endowments	142,021		
Annuity and old age benefits	3,625,094		
Disability, accident and health benefits	113,521		
Surrender benefits and withdrawals for life contracts	7,140,101		
Interest and adjustment on certificates or deposit-type contract funds	50,360		
Payments on supplementary contracts with life contingencies	439,750		
Subtotal	14,239,264		
Commissions on premiums, annuity considerations and deposit-type contract funds	813,102		
General insurance expenses and fraternal expenses	6,732,896		
Insurance taxes, licenses and fees	281,449		
Write-ins for deductions:			
Term conversion credit	7,490		
Refunds to members paid	871,462		
Total deductions		22,945,663	
Net cash from operations			$8,837,020
Proceeds from investments sold, matured, or repaid:			
Bonds	29,266,974		
Stocks	55,355		
Mortgage loans	19,011,655		
Other invested assets	29,097		
Total investment proceeds		48,363,081	
Cost of investments acquired (long-term only):			
Bonds	40,267,109		
Stocks	2,005,072		
Mortgage loans	13,863,012		
Real estate	117,450		
Other invested assets	4,057		
Total investments acquired		56,256,700	
Net increase (or decrease) in certificate loans and liens		115,959	
Net cash from investments			(8,009,578)

Cash provided from financing and miscellaneous sources:			
Deposits on deposit-type contract funds and other liabilities without life or disability contingencies	675,582		
Other sources	579,676		
Total		1,255,258	
Cash applied for financing and miscellaneous uses:			
Withdrawals on deposit-type contract funds and other liabilities without life or disability contingencies	1,333,030		
Other applications	4,594		
Total		1,337,627	
Net cash from financing and miscellaneous sources			(82,366)
Net change in cash and short-term investments			745,076
Reconciliation			
Cash and short-term investments, December 31, 2000			1,254,209
Cash and short-term investments, December 31, 2001			$1,999,285

Catholic Family Life Insurance
Compulsory and Security Surplus Calculation
December 31, 2001

Assets		$219,378,940	
Less security surplus of insurance subsidiaries			
Less liabilities		204,859,163	
Adjusted surplus			$14,519,777
Annual premium:			
Individual life and health	7,884,082		
Factor	15%		
Total		$1,182,612	
Greater of 7.5% of considerations or 2% of reserves for annuities and deposit administration funds		1,595,536	
Compulsory surplus (subject to a $2,000,000 minimum)			2,778,148
Compulsory surplus excess or (deficit)			$11,741,628
Adjusted surplus			$14,519,777
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million with a minimum of 110%)			3,889,408
Security surplus excess or (deficit)			$10,630,369

Catholic Family Life Insurance
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2001

The following schedule is a reconciliation of total surplus during the period under examination as reported by the society in its filed annual statements:

	1997	**1998**	**1999**	**2000**	**2001**
Surplus, beginning of year	$13,541,989	$15,139,556	$15,981,995	$16,490,002	$16,199,772
Net income	1,602,169	1,190,197	852,066	372,442	(878,414)
Change in net unrealized capital gains or (losses)	487,076	278,291	333,924	(1,290,276)	(1,082,452)
Change in nonadmitted assets and related items	196,046	36,256	(183,417)	55,238	7,875
Change in liability for reinsurance in unauthorized companies					
Change in reserve on account of change in valuation basis	(168,413)	(223,695)	(61,460)	(61,460)	(63,717)
Change in asset valuation reserve	10,459	(438,610)	(433,106)	693,826	429,873
Cumulative effect of changes in accounting principles					(93,159)
Write-ins for gains and (losses) in surplus:					
Adjustment of Previously Non-Admitted Assets	(529,770)				
Prior Period Audit Adjustment				(60,000)	
Surplus, end of year	$15,139,556	$15,981,995	$16,490,002	$16,199,772	$14,519,778

Catholic Family Life Insurance
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2001

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

	Ratio	**1997**	**1998**	**1999**	**2000**	**2001**
#1	Net change in surplus	12.0%	6.0%	3.0%	-2.0%	-10.0%*
#2	Net income to total income	5.0	4.0	3.0	1.0	-3.0*
#3	Comm and Exp to Prem and Deposits	Discontinued				
#4	Adequacy of investment income	163.0	159.0	154.0	151.0	149.0
#5	Non-admitted to admitted assets	0.0	0.0	1.0	1.0	0.0
#6	Total real estate & mortgage loans to cash & invested assets	44.0*	42.0*	40.0*	42.0*	39.0*
#7	Total affl investments to surplus	0.0	0.0	0.0	0.0	0.0
#8	Surplus relief	0.0	0.0	0.0	0.0	1.0
#9	Change in premium	-19.0*	-15.0*	9.0	-6.0	19.0
#10	Change in product mix	6.0*	5.5*	0.9	5.5*	8.0*
#11	Change in asset mix	0.4	0.5	0.3	0.4	0.7
#12	Change in reserving ratio	-3.0	-5.0	2.0	-4.0	0.0

Ratio No.1 shows an exceptional result of a 10% decline in surplus. Ratio No. 2 calculates the ratio of net income (including realized capital gains and losses) to total income; a value below zero is considered exceptional. Both of these exceptions are attributable to adjustments in the value of nine bonds in 2001, due to impairment or default. The society suffered both realized and unrealized losses as a result of these adjustments, which caused the company to suffer a net loss for the year and to record a decrease in surplus. The company has contracted with a new investment manager and does not expect these adjustments to recur.

Ratio No. 6 is exceptional due to the high percentage of mortgage loans in relation to total invested assets; a result over 30 is considered exceptional. The exceptional result is not unusual for the society, and is not considered a cause for concern due to the favorable performance of the mortgage loan portfolio in the past.

Ratio No. 9 shows a large decrease in premium from 1996 to 1997, and again from 1997 to 1998. A decrease of greater than 10% is considered exceptional. Both decreases are attributed to a decrease in internal rollover business on annuities. The decrease was 34% in 1997 and 35% in 1998.

Annuity premium written in 1996 was unusually large due to the rollover business; new annuity premium written increased during both 1997 and 1998.

Ratio No. 10 is reflective of the shifts in the company's product mix between life insurance and annuities. The exceptional results in 1997 and 1998 are a result of the decreases in internal annuity rollovers mentioned above. In 2000, the company's premium volume from life insurance increased, while the premiums from annuities continued to decrease. The life premium increase is attributed to a program instituted by the company, in which policyholders were encouraged to convert dividend balances to paid-up additions to life policies. In 2001, the annuity premium increased while the life insurance premium decreased. This change is the result of both a general consumer preference for annuity products over traditional life products; and to the slowdown of the paid-up additions program that contributed to the strong life insurance premium volume in 2000. The volume of premium from annuity sales, especially new premium dollars, is expected to continue to grow due to market conditions, including a current economic environment which attracts consumers to the society's fixed annuity products as opposed to variable products offered by competitors.

Growth of Catholic Family Life Insurance

Year	Admitted Assets	Liabilities	Members' Surplus
1997	$202,514,840	$187,375,284	$15,139,556
1998	207,740,409	191,758,414	15,981,995
1999	213,641,623	197,151,621	16,490,002
2000	213,401,800	197,202,029	16,199,771
2001	219,378,940	204,859,163	14,519,777

Life Insurance In Force (in thousands)

Year	Gross Direct and Assumed	Ceded	Net
1997	$1,488,020	$158,746	$1,329,274
1998	1,516,562	166,016	1,350,546
1999	1,497,067	167,907	1,329,160
2000	1,488,287	174,752	1,313,535
2001	1,477,147	181,356	1,295,791

Accident and Health

Year	Net Premiums Earned	Net Losses Incurred	Commissions Incurred	Other Expenses Incurred	Combined Loss and Expense Ratio
1997	$219,649	$85,652	$28,928	$266,401	173.0%
1998	208,043	135,953	30,841	269,584	210.0%
1999	198,999	125,331	29,107	267,921	212.0%
2000	201,268	136,651	26,888	280,795	221.0%
2001	192,161	147,190	22,502	210,401	198.0%

The company might discontinue the A&H product, due in part to its cost structure which results in a high expense ratio at the low volume of sales currently produced.

Reconciliation of Members' Surplus per Examination

There were no reclassifications or adjustments to surplus as a result of the current examination.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no comments or recommendations in the previous examination report.

Summary of Current Examination Results

Management and Control

During review of the cash receipts process, it was noted that the same individual opens the mail, prepares and deposits the receipts, and posts the entry to the general ledger. The size of the society may complicate further segregation of duties; however, one, if not two, of these duties should be delegated to another person, in order to strengthen the society's controls over cash receipts. It is recommended that the society further segregate the duties involved in the processing of cash receipts.

It was noted during the review of the company's investments that only one society officer was required to be present in order to gain access to securities kept in the vault at the home office, and that no log book or other mechanism existed to track the date, time and reason for access to securities. Upon further inquiry, it was discovered that any officer or director (including those with authority to sell securities) has access to the vault at any time, and that no mechanism existed to record any items that were accessed or removed. It is recommended that the society take additional precautions to safeguard assets kept in the home office vault.

Bonds and Stocks

A review of the society's custodial agreement with a local trust company indicated that the agreement lacked sufficient language relating to the custodian's indemnification responsibilities to the society.

According to the NAIC Financial Examiners Handbook, the agreement should state that "the national bank, state bank, or trust company, as custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the custodian's custody occasioned by the negligence or dishonesty of the bank or trust company's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction. In the event that there is a loss of the securities for which the bank or trust company is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from loss of said securities shall be promptly replaced."

In accordance with the NAIC Examiners Handbook, it is recommended that the society add indemnification clauses to its custodial agreement with its trust company custodian in order to enhance the safeguard of securities.

Review of NAIC bond designations on the society's Schedule D indicated that although the society reported an NAIC Securities Valuation Office (SVO) designation for each bond on Schedule D, many of these ratings were not actually obtained from the SVO. The society instead used the equivalent ratings obtained from nationally recognized statistical rating organizations (NRSROs), but did not use the "PE" designation to indicate which ratings were obtained in this manner. The "PE" designation should always be used when the society, and not the SVO, has determined the rating for a particular security. The society should continue to file with the SVO any securities not meeting the criteria for provisional exemption outlined in Part Four of the Purposes and Procedures Manual of the NAIC Securities Valuation Office. It is recommended that the society properly identify and report the NAIC SVO designation, or equivalent rating, for each of its securities reported on Schedule D.

Real Estate

The society lists two parcels of land as admitted assets on Schedule A. The society indicated that the lots were leased to two charitable organizations, who had constructed buildings on the lots. The 1983 lease agreement runs for 75 years, at zero rent, with the lessee having the option to buy both properties for $1 at termination. The society may sell, transfer or assign the land, but the land remains subject to the terms of the lease.

SSAP 40 states that "properties held for the production of income shall be carried at depreciated cost less encumbrances unless events or circumstances indicate the carrying amount of the asset may not be recoverable." The society's income from these properties is zero, and the society is unlikely to receive any cash flow from them other than $1 in 2058. The society should either non-admit these two properties, or value them at zero. It is recommended that the society properly value its real estate investments in accordance with SSAP 40.

Premiums and Annuity Considerations Deferred and Uncollected

The review of the society's premium accrual detail showed accruals for two policies in which the payments were past due over 90 days, but were still included as admitted receivables. Further review showed that the policies had lapsed after 30 days past due, but receivables were still being generated. The amount of uncollected premium past due over 90 days was not determined to be material; however, these receivables should be nonadmitted per SSAP 6. It is recommended that the society properly non-admit all premiums and annuity considerations which are past due greater than 90 days, in accordance with SSAP 6.

Unclaimed Funds

The review of the bank reconciliations indicated that the outstanding check list still contained items issued prior to December 31, 1994. These items should have been escheated to the state of Wisconsin in the company's filing in May 2000. It is recommended that the society properly escheat all unclaimed property to the state of Wisconsin, in accordance with ch. 177, Wis. Stat.

General Expenses Due and Accrued

It was noted that the society did not accrue for several general expenses due at 12/31/2001. As a result, the liability for general expenses due and accrued was understated. It is recommended that the society properly include all home office and branch office expenses in the liability for general expenses due and accrued.

VII. CONCLUSION

The examination confirmed that Catholic Family Life Insurance had admitted assets of $219,378,940; liabilities of $204,859,163; and unassigned funds of $14,519,777 as of December 31, 2001.

The society is in good financial condition. Operating gains have provided refunds to members in each year under examination, including refunds of $966,972 in 2001. Admitted assets have increased 8% since December 31, 1997. However, surplus decreased 4% in the same time period, primarily due to unrealized investment losses in 2000 and 2001. Membership has been slowly decreasing for several years. The society's business plan contains specific strategies to address this issue.

The prior examination contained no recommendations or adjustments to surplus. The current examination resulted in seven recommendations and no adjustments to surplus.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 - Management and Control—It is recommended that the society further segregate the duties involved in the processing of cash receipts.

2. Page 25 - Management and Control—It is recommended that the society take additional precautions to safeguard assets kept in the home office vault.

3. Page 26 - Bonds and Stocks—It is recommended that the society add indemnification clauses to its custodial agreement with its trust company custodian in order to enhance the safeguard of securities.

4. Page 26 - Bonds and Stocks—It is recommended that the society properly identify and report the NAIC SVO designation, or equivalent rating, for each of its securities reported on Schedule D.

5. Page 26 - Real Estate—It is recommended that the society properly value its real estate investments in accordance with SSAP 40.

6. Page 27 - Premiums and Annuity Considerations Deferred and Uncollected—It is recommended that the society properly non-admit all premiums and annuity considerations which are past due greater than 90 days, in accordance with SSAP 6.

7. Page 27 - Unclaimed Funds—It is recommended that the society properly escheat all unclaimed property to the state of Wisconsin, in accordance with ch. 177, Wis. Stat.

8. Page 27 - General Expenses Due and Accrued—It is recommended that the society properly include all home office and branch office expenses in the liability for general expenses due and accrued.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the society is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

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Respectfully submitted,

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